

TEACHERS' RETIREMENT BOARD
BUDGETS AND AUDITS COMMITTEE

SUBJECT: 2001/2002 Annual Audit Work Plan

ITEM NUMBER: 9

ATTACHMENTS: 1

ACTION: X

DATE OF MEETING: July 12, 2001

INFORMATION: _____

PRESENTER: Way Lee

In accordance with the Standards for the Professional Practice of Internal Auditing, and as part of the responsibilities of the Internal Audit Office, we are requesting your approval of our Annual Audit Plan for Fiscal Year 2001/2002 (plan), which is included as Attachment 1. The plan presents proposed internal audits and school district audits, and other special projects to be completed during Fiscal Year (FY) 2001/2002. The plan also includes a report of audits completed during FY 2000-2001.

PLAN SUMMARY

Internal Audits:

Similar to other CalSTRS' units, much of our work during fiscal year 2000-01 focused on completing various START related projects. We also completed a long-overdue Investments Branch Risk Assessment and several other special or recurring projects. In addition, we worked on three Investments Branch audits during the prior fiscal year that are still in progress.

Staff reassignments to the START project, promotions within the OOA unit, and the hiring freeze during fiscal year 2000/2001 collectively prohibited us from meeting our prior year audit plan. Assuming we can fill our vacant audit positions and maintain existing staff levels, we anticipate meeting the goals established within our current year audit plan.

For the upcoming fiscal year we plan to focus most of our internal audit resources on the State Administrative Manual (SAM) 20000 Evaluation of Accounting and Administrative Controls within CalSTRS' Administration and Information and Financial Systems Branches. We are required to complete a report concluding on the adequacy of these control systems and submit it to the State's Department of Finance by December 31, 2001 and biennially thereafter. To accomplish this task, a member of the school district audit team will work with the internal audit team for approximately three months. We also plan to conduct four new audits within the Investments Branch. We will continue to use our Investments Branch Risk Assessment, completed in September 2000, to select audit activities for review.

Other projects planned for the third or fourth quarter of the fiscal year include a Network Security Review and a Risk Assessment of CalSTRS' Operations (excluding investments). The risk assessment will enable us to update our listing of auditable activities within CalSTRS. In addition, we plan to conduct a post-implementation review of the START project. In planning for the review we anticipate that we will need assistance from an external service provider with expertise in conducting these types of reviews. However, we will make a detailed presentation regarding this issue at a later date.

School District Audits:

We met our goal of finishing our on-site work for seven Defined Benefit Program audits, two Cash Balance Benefit Program audits, two self-assessments, and a preliminary survey of Los Angeles Unified School District even though one auditor retired and one was assigned to START. The loss of staff resulted in a 30% reduction of audit resources. Of these audits/assessments, we issued three final reports and two draft reports. In addition, management is reviewing three draft reports and the auditors are preparing draft reports for the remaining audits. We completed follow-up on two prior audits.

With regards to the Defined Benefit Program audit, we have changed the way we perform our risk assessment and select our sample. This change has resulted in developing more types of findings and the findings having a larger dollar impact on the CalSTRS system.

The main impact of our Cash Balance Benefit Program audits has been the disclosure that district's are not properly notifying new employees of their right to elect participation in this program.

We met our goal of issuing two control self-assessment reports. The two control self-assessment engagements were successful. Working with the County Office of Education personnel, we were able to identify a number of risks that could be used to help future development of audit emphasis.

According to the plan, we did a preliminary survey of the Los Angeles Unified School District (LAUSD). In our survey we performed testing of internal controls in areas such as reporting of retired and active members' pay rates, creditable compensation, base days and unused sick leave days, proper reporting of pay rates (e.g., earnables) and earnings for part-time employees, and proper notification of the right to elect membership, and monitoring part-time employees for automatic eligibility into the system. The auditor is currently analyzing the information collected to determine if an audit is necessary and the scope of that audit.

Compliance Review:

The Compliance staff opened and completed 13 case reviews during 2000/2001 and completed 32 cases that were in progress at the beginning of FY 2000/2001. One Compliance analyst retired in December 2000 and the other took a promotion with another state department in February 2001 leaving the Compliance unit vacant. We have reclassified both positions to entry level auditor positions, namely Staff Services Management Auditor. With this entry-level auditor

classification, we expect more candidates qualifying for the interview and final selection. The entry-level position will also assist in staff retention as the auditor may stay longer for career advancement to the Associate Management Auditor level.

The Compliance program case review typically covers individual retired members in a school district. We select many individuals from multiple school districts thus covering more audit territory. However, the Compliance analysts we had were not auditors and could not be expected to perform audit required documentation and analytical work; they had to rely on the school districts to mail in the documents needed for review of each case. This was not an effective use of audit resources because incomplete information was frequent and we had to re-request for more data and information.

Our new approach to collecting Compliance case information is to utilize the auditor's visit in a school district and extend that visit to other school districts in the vicinity for the individual cases that we select for Compliance review. We believe this will shorten the time for gathering required information and will result in completing more Compliance cases.

METHODOLOGY

To estimate the annual staff production hours available for FY 2001/2002 audits and projects, we used CalSTRS' pre-calculated "standard work hours" and estimated that 80 percent of auditors' annual work hours were available for projects. The remaining 20 percent of available hours are designated to non-project administrative tasks. These administrative tasks include training (as required by auditing standards); preparing management reports/Board agenda items; and attending staff or Board meetings. We currently have several vacant auditor positions for both the internal and school district teams but plan to fill those positions during the first quarter of the fiscal year. Taking the vacancies into consideration, we estimated that approximately 7,000 hours were available for internal audits and 8,000 hours for school district audits.

The plan at Attachment 1 identifies the audits completed in the prior year along with the planned audits for the current year. Those internal audits planned for the prior year that were not completed are identified as either "canceled" or indicated as being rolled over to the current year plan. Similar to previous years, the plan excludes staff hours for clerical support personnel, audit supervisors, and the audit chief. The two audit supervisors will allocate their time to updating the OOA Procedures Manual, implementing computer software applications, performing fieldwork on some audits and special projects, and supervising audit staff.

INFORMATION TECHNOLOGY

During the prior fiscal year we purchased and implemented the Audit Leverage program software. The program modules include human resource management, audit timekeeping/budget control, electronic work papers, audit findings/recommendations tracking, automated risk assessment tracking, and various reporting formats. We have already implemented several of the modules and intend to complete the implementation of the software during the current year. The program has been very successful and allowed us to perform our audit activities much more efficiently.

We continue to enhance our skills in utilizing the internet to quickly access audit related web sites to obtain useful information regarding current auditing issues, available tools, audit programs, etc. Additionally, our alliance with other members of the Association of Public Pension Fund Auditors (APPFA) has been very beneficial. We communicate with other APPFA members on a weekly basis via e-mail and continually improve our effectiveness by sharing information and obtaining the current “best practices” of other public pension funds.

We plan to further utilize available audit tool software such as Audit Command Language (ACL) and Monarch program software when conducting internal audits. We successfully used ACL during the control testing phase of one of our Investments Branch audits last year and plan to use Monarch to perform tests of accounting data related to the SAM 20000 audit.

**OFFICE OF AUDITS
ANNUAL AUDIT PLAN
Fiscal Year 2001-2002**

Attachment 1
Budgets & Audits Committee – Item 9
July 12, 2001
Page 1

<p style="text-align: center;">Office of Audits Objectives <u>Internal Audits</u></p>	<p style="text-align: center;">Completed Audits for FY 2000-01</p>	<p style="text-align: center;">Budgeted Audit Hours for FY 2001-02</p>
<p>EXECUTIVE BRANCH</p> <p>START Project</p> <ul style="list-style-type: none"> • I & FS Branch Reconciliation Project • Database Security Review • Conversion project – testing methodologies, data controls, & process controls (PY project canceled) • Post Implementation Review – Planning • Post Implementation Review (rolled over from prior year (PY) plan) <p>General: CalSTRS Operations</p> <ul style="list-style-type: none"> • Perform Risk Assessment (rolled over from PY plan) 	<p style="text-align: center;">X X (canceled) X</p>	<p style="text-align: center;">720 400</p>
<p>INVESTMENTS BRANCH</p> <p><u>General:</u></p> <ul style="list-style-type: none"> • Investments Branch Risk Assessment • Investment Audit (not yet determined) • Investment Audit (not yet determined) <p><u>Admin/Ext. Relations:</u></p> <ul style="list-style-type: none"> • Soft Dollars Audit (complete PY audit) • Investment Accounting, Record-keeping, & Reporting (rolled over from PY plan) <p><u>Fixed Income:</u></p> <ul style="list-style-type: none"> • Currency Hedging <p><u>Internal Equities:</u></p> <ul style="list-style-type: none"> • Internal Equities Preliminary Review (complete PY audit) <p><u>Real Estate:</u></p> <ul style="list-style-type: none"> • Real Estate Preliminary Review (complete PY audit) 	<p style="text-align: center;">X</p>	<p style="text-align: center;">480 480 40 480 480 120 120</p>

**OFFICE OF AUDITS
ANNUAL AUDIT PLAN
Fiscal Year 2001-2002**

Attachment 1
Budgets & Audits Committee – Item 9
July 12, 2001
Page 2

<p style="text-align: center;">Office of Audits Objectives <u>Internal Audits</u></p>	<p style="text-align: center;">Completed Audits for FY 2000-01</p>	<p style="text-align: center;">Budgeted Audit Hours for FY 2001-02</p>
<p>CLIENT BENEFITS & SERVICES BRANCH</p> <p><u>Disability & Survivor Benefits Division:</u></p> <ul style="list-style-type: none"> Follow-Up Audit: Death Match Process (rolled over from PY plan) 		<p style="text-align: center;">120</p>
<p>INFORMATION & FINANCIAL SYSTEM BRANCH</p> <p><u>Accounting Division:</u></p> <ul style="list-style-type: none"> SAM 20000 Audit (includes Accounts Receivable from PY plan) <p><u>Information Technology Services Division:</u></p> <ul style="list-style-type: none"> Network Security Review 		<p style="text-align: center;">1,096</p> <p style="text-align: center;">480</p>
<p>EXTERNAL AFFAIRS & PROGRAM DEVELOPMENT BRANCH</p> <p><u>AB 1509 Implementaion:</u></p> <ul style="list-style-type: none"> Participation on AB1509 Implementation Team 	<p style="text-align: center;">X</p>	
<p>ADMINISTRATION BRANCH</p> <p><u>Administrative Services:</u></p> <ul style="list-style-type: none"> SAM 20000 Internal Control Review (complete prior year audit) <p><u>Office of Audits:</u></p> <ul style="list-style-type: none"> Annual Coordination of CalSTRS financial audit Quarterly Follow-Up on prior audit observations Business Process Automation (PY project canceled) Special Projects – Technical Assistance 	<p style="text-align: center;">X</p> <p style="text-align: center;">X</p> <p style="text-align: center;">(canceled)</p> <p style="text-align: center;">X</p>	<p style="text-align: center;">1,360</p> <p style="text-align: center;">242</p> <p style="text-align: center;">320</p> <p style="text-align: center;">100</p>
<p>TOTAL AUDIT HOURS for 5 internal auditors:</p>		<p style="text-align: center;">7,038</p>

**OFFICE OF AUDITS
ANNUAL AUDIT PLAN
Fiscal Year 2001-2002**

Attachment 1
Budgets & Audits Committee – Item 9
July 12, 2001
Page 3

<p style="text-align: center;">Office of Audits Objectives <u>School District Audits</u></p>	<p style="text-align: center;">Completed Audits for FY 2000-01</p>	<p style="text-align: center;">Budgeted Audit Hours (# audits) for FY 2001-02</p>
<p>SCHOOL DISTRICT AUDITS</p> <ul style="list-style-type: none"> • Defined Benefit Program (DBP) Audits • Complete PY DBP audits in progress at 6/30/01 • Cash Balance Benefit Program (CBBP) Audits • Complete PY (CBBP) audits in progress at 6/30/01 • Control Self-Assessment Visits • Follow-up to Prior Audits • Compliance Cases (including referral to audits) 	<p style="text-align: center;">3</p> <p style="text-align: center;">1</p> <p style="text-align: center;">3</p> <p style="text-align: center;">2</p> <p style="text-align: center;">61</p>	<p style="text-align: center;">4, 066 (11) 480 (6)</p> <p style="text-align: center;">0 80 (2)</p> <p style="text-align: center;">300 (3)</p> <p style="text-align: center;">210 (5)</p> <p style="text-align: center;">1,440 (60)</p>
<p>EXECUTIVE BRANCH</p> <p>START Project</p> <ul style="list-style-type: none"> • I & FS Branch Reconciliation Project 	<p style="text-align: center;">X</p>	
<p>ADMINISTRATION BRANCH</p> <p>Office of Audits</p> <ul style="list-style-type: none"> • School District Audit Program Adjustment • LAUSD Preliminary Survey • Community College Full-time Equivalents • Special Projects (AB 2700 & Others) 	<p style="text-align: center;">X</p>	<p style="text-align: center;">40 80 700</p>
<p>CLIENT BENEFIT & SERVICES BRANCH / INFORMATION & FINANCIAL SYSTEM BRANCH</p> <p>Service Retirement Div. / Membership Div.:</p> <ul style="list-style-type: none"> • Exception Lines Correction & Manual Calculation Review (rolled over from PY plan) 		<p style="text-align: center;">600</p>
<p>TOTAL AUDIT HOURS for 6 School District Auditors:</p>		<p style="text-align: center;">7,996</p>